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C O N F I D E N T I A L SECTION 01 OF 04 MEXICO 000311

SIPDIS

E.O. 12958: DECL: 02/05/2028

TAGS: PREL PGOV PHUM SNAR KCRM MX

SUBJECT: SCENESETTER FOR THE VISIT OF CODEL LOWEY TO
MEXICO, FEBRUARY 13-16

Classified By: Political Minister Counselor Charles V. Barclay.
Reason: 1.4 (b), (d).

¶11. (SBU) Mission Mexico warmly welcomes you to Mexico City. President Calderon recognizes the broad-ranging challenges his country faces and has the vision and political will to address them strategically. The U.S. and Mexico have developed a solid set of institutional relationships that allow us to work productively on our priority goals that are fundamental to homeland security and North American prosperity. In particular, the Merida Initiative poises us to significantly increase counter drug cooperation and support President Calderon's aggressive efforts to combat Mexico's drug cartels and improve public security.

VIOLENCE CONTINUES, PRESIDENT SEEKS RESULTS

¶12. (SBU) Drug-related violence in Mexico continues unabated. 2008 set a new record for organized crime-related homicides with more than 6000 killings, including 525 military and law enforcement officers. Beyond its broadened scope, the nature of cartel violence has also changed; violence was characterized by significantly increased brutality, a callous disregard for the potential for collateral damage and more frequent targeting of soldiers and police. Mexico's drug trafficking organizations (DTOs) have also more frequently orchestrated brutal killings to send intimidating messages to security forces, the Mexican public and the body politic. The scope of violence is, at least in part, evidence that Calderon's aggressive push against the cartels is having some effect. However, this is small comfort to Mexican citizens living in the climate of fear and insecurity that increasingly pervades here.

¶13. (C) Mexico's president needs to demonstrate concrete evidence that his efforts are disrupting cartel business operations and their capacity to further undermine Mexico's security. He faces major structural hurdles, however. His demoralized police remain outgunned, and generally intimidated by the cartels. A legacy of corruption has rendered security elements suspicious of each other and reluctant to cooperate and share information. Mexico's federal system makes it difficult for law enforcement elements (merely five percent of the country's police) to insert themselves into state jurisdictions. Within Mexico's dysfunctional judiciary, 90-95 percent of crimes do not result in convictions and the average trial lasts over eight months.

¶4. (U) Despite these challenges, the Calderon government has shown itself to be dedicated to combating organized crime and improving the country's security situation through aggressive law enforcement and military deployments, as well as reforming the country's policing and judicial institutions. President Calderon is running joint military-law enforcement anti-narcotic operations in ten states, and some 27,000 troops are specifically involved in counter-drug activities. He has raised pay for the military and replaced a number of high-ranking law enforcement officials in an anti-corruption campaign. He has increased the budget of the security forces each year since he took office, including a dramatic increase in the current budget. The President, in coordination with other political parties, also ushered through Congress four important security and justice reform packages that, if appropriately implemented, will help to modernize and restructure the country's justice system, as well as improve and better coordinate Mexico's disparate police forces.

¶5. (SBU) Mexico also serves as one of the major conduits for proceeds from illegal drug sales leaving the United States. The illicit drug trade is the main source of funds laundered through the Mexican financial system, though other major sources include corruption, kidnapping and trafficking in firearms. The smuggling of bulk cash shipments of U.S. currency into Mexico and the movement of the cash back into the U.S. via couriers, armored vehicles and wire transfers remain the most favored methods for laundering drug proceeds.

We estimate that since 2002, more than \$22 billion may have been repatriated to Mexico from the United States by drug trafficking organizations, all facilitated by the combination

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of a sophisticated financial sector and relatively weak regulatory controls. President Calderon is committed to improving interdiction of money laundering, by further empowering Customs agents, for example. Nevertheless, our interagency assistance, training and support is essential.

¶6. (U) To date, President Calderon's counter narcotics efforts have produced results. In 2007 over 28,000 persons involved in drug-related crimes were arrested; approximately 27,000 were incarcerated in 2008. In 2008, over 19 metric tons of cocaine have been seized, as well as 1,649.8 metric tons of marijuana and 341 kilos of methamphetamine. Arms seizures are also up, from 4,220 in 2006 to 9,550 in 2007 and 20,235 in October 2008.

MEXICO'S ECONOMY

¶7. (U) The Calderon administration has registered some impressive accomplishments since 2006 -- maintaining macroeconomic stability, keeping inflation for the most part at a reasonable 4 percent, and lowering barriers to trade. The President secured quick congressional approval of the 2007 and 2008 budgets, and won passage of an unpopular but necessary government workers' social security reform. In the last year, Congress also approved a tax reform that will boost government revenues and a modest package of modernizing reforms to Mexico's state-run energy company, PEMEX.

¶8. (C) Much remains to be done, however, to arrest Mexico's slipping global competitiveness, and to secure growth rates sufficient to raise 40% of Mexicans out of poverty. In recent months, inflation has remained at over 5 percent and the Mexican peso has slipped over 30% against the U.S. Dollar. Real GDP growth is also expected to be zero or slightly negative this year, down from an estimated 2.6 percent in 2008, primarily due to the U.S. economic slowdown. In response to the steep global downturn and falling oil prices and production, President Calderon has announced plans to increase public spending on housing and infrastructure projects, programs to support small and medium businesses and introduced tariff cuts to improve Mexico's competitiveness.

Over the longer term, the President must advance reforms that make a lasting impact on the lives of Mexico's poor and struggling middle class.

POLITICAL LANDSCAPE

¶19. (SBU) In addition to growing concerns over the economy, crime and violence, the President and his party face a hardening political environment here in advance of legislative and key gubernatorial elections later this year. All three of the main political parties in the legislature have their eyes on the bellwether 2009 elections, and the Institutional Revolutionary Party (PRI), in particular, is expected to make gains. The window of opportunity to effectively cooperate with a divided congress on major reform initiatives is rapidly closing.

MERIDA INITIATIVE ROLLOUT

¶110. (SBU) The U.S. is poised to assist Mexico in a major way in dealing with its challenging security environment. The \$400 million Merida Initiative includes a mix of funding: INCLE administered by our Narcotics Affairs Section; Economic Support Funds administered by USAID; and Foreign Military Financing administered by the Office of Defense Cooperation. The package includes funding for:

--Non-intrusive inspection equipment, ion scanners and canine units for Mexico to interdict trafficked drugs, arms, cash, and persons.

--Technologies to improve and secure communications systems that collect criminal information, including biometric data, as well as continued support to expand Plataforma Mexico, a program that facilitates information and intelligence

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exchanges among the country's law enforcement agencies.

--Technical advice and training to strengthen the institutions of justice) vetting for the new police force, case management software to track investigations through the system, new offices of citizen complaints and professional responsibility, and witness protection programs.

--Helicopters and surveillance aircraft to support interdiction activities, and rapid response of law enforcement agencies and supporting military forces.

¶111. (SBU) The Letter of Agreement for Merida was signed with the Mexicans on December 3. The NAS in Mexico City is staffing up to administer Merida and inter-agency coordination meetings are ongoing within the Law Enforcement Community to prepare for Merida roll out. There are projects which have already begun to bear fruit and most of the projects should be underway by the summer, although many are long term in nature and will not yield early results.

ISSUES FOR DISCUSSION

¶113. (C-Entire Paragraph) Several issues that may come up during your discussions are:

-- Merida Implementation: Embassy officials are currently engaged with their counterparts to discuss project implementation. We appreciate President Calderon's political courage to partner with the U.S. and Central America on this initiative and will seek to gain the earliest impact from these funds. GOM officials may express frustration at the

slow roll-out of Merida, the timelines for which have always been somewhat unrealistic here. We will maintain full transparency and seek ongoing input from the GOM to ensure this package has the greatest impact on the ground.

-- Future Merida Funding: GOM officials will also be interested in discussing future funding for Merida. The program was initially discussed as a \$1.4 billion program over 3 years and both public and official expectations are leaning in that direction, even if it takes longer than three years to reach. The GOM is especially interested in funding for National Police helicopters. The three Blackhawk helicopters which were part of the original Merida package are included in the National Police plan to provide police coverage to the entire country through the development of nine command centers. They currently have three Blackhawks and plan to acquire four more with GOM resources. You will see one of these during your visit. It is a key part of the plan to begin to de-militarize the conflict and our helicopter support figures prominently.

-- Arms Trafficking: The flow of arms south will be on the mind of most of your interlocutors. We have a very active ICE and ATF team at post that are doing what they can in combating the flow of firearms into Mexico. They are also expanding operations on the U.S. side of the border to target the illegal sales of firearms being smuggled into Mexico. But given the scale of the problem and the impact on Mexico, the GOM will press for more integrated and coordinated actions. A proposed March conference should provide an opportunity to improve bilateral cooperation in trafficking cases.

--Extraditions: Cooperation during the Calderon administration has been outstanding, with more than 160 dangerous criminals being extradited to the U.S. in the past two years. GOM contacts merit congratulations on their efforts in this area even as we encourage them to do more.

-- Southern Border: We continue to work closely with Mexico to strengthen its control of its southern border. GOM officials seek continued U.S. technical assistance on southern border initiatives, and diplomatic support as we work together with Central America.

--Kidnappings: We recognize that kidnappings in Mexico have increased dramatically in recent years and are concerned as

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to their impact on both Mexican and US citizens, particularly living along our shared border. According to local media, more than 7,000 kidnappings occurred in 2008. The GOM needs to consider how it can be more effective in investigating these cases.

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